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ECONOMICS AND MODERN PSYCHOLOGY. II

CONSTRUCTIVE STATEMENT: OUTLINE OF THE THEORY OF ECONOMIC GUIDANCE

I. INTRODUCTION

The guidance, formation, and determination of economic choices is a process which, in large part at least, must needs be classed and treated as economic production. It is a source of money income under free competition; it adds exchange value to a given supply of goods by increasing the total desire for them rather than by limiting the supply; and it renders as a whole indispensable services to mankind—services secured at a heavy economic cost. These services cost labor, time, and strength even if they are not marketed (for example, household management), and where the service is professionalized it has a financial cost and takes its place in our national economy along with all the others. It is productive by all the recognized tests.

But it is a form of production to which the traditional analysis of economic theory does not apply. So far as the writer is aware it is a new division of production—new, that is, as a basis of classification in general economic theory. The material to be treated is of course not new. The literature of business is full of it, and even economic literature treats many scattered phases of it safely outside the confines of “formal theory.” Formal theory has been repelled from this subject partly because it could not be analyzed into laws of equilibrium and partly because it leads to an eternal circle of cause and effect between production and consumption, and many theorists have wanted to end their inquiry in some ultimate fact from which the chain of cause and effect could be assumed to start. These demands of theory cannot be gratified by the facts as they are, for the facts do not behave in these preconceived fashions. What these demands lead to is a type of theory that stops short of a full study of all the significant facts. The drama of life as so presented is one in which the work of guiding economic decisions, which can never be in equilibrium nor reduced to a single ultimate cause,

is carried on "off stage," so to speak, and only the results are shown to the audience. This work is really a complex drama in itself, with many actors, and the nominal hero—the person whose decision forms the outcome of the play—has often the most passive rôle of all, like the nominal hero of many a historical novel. A true description will put him in his proper place.

Again, theory is accustomed to speak of the "state of the arts" as if it were a form of all-pervasive free good. This reminds one of the claim that fishing is not an action but a state of being. The "state of the arts" is not a state of being but an active organizing process. The preservation, diffusion, and advancement of this unique class of productive assets involve an economic process governed by far more complex laws than the technical laws of material production, and the results are by no means "free goods," either to individuals or to humanity at large.

This work of guidance turns out a product whose selling value cannot be a measure of "marginal utility" because its very nature is to upset the stability of the personal budgets which is essential if prices and marginal utilities are to be in proportion. Its magnitude cannot even be explained in terms of existing demand schedules, nor can it be truly described as adapting materials to existing demands, since it works on desires rather than on means of gratification, and determines what the demand schedules are to be. Hence this new division of production must be studied on its own merits if the study is to throw light on the machinery by which producers' gains are connected with consumers' gratifications, or to show how social production really works in this neglected field.

Such a study of production must needs start with a declaration of independence from the old-time supremacy of the theory of value (which was a theory of equilibrium). It will, of course, lay as much emphasis as ever on price as an instrument of productive organization, but will tend to discredit it as the aim, end, and final measure of all things economic.

In spite of disturbing shifts in the point of view adopted such a study will be at once constructive and in a proper sense conservative, for it will act to limit the much-assailed theories of free private enterprise to a field within which they may be so framed as

to be significantly true; at the same time it attempts to establish a working relationship between this field and the others within which very different forces are acting. It is just as unscientific to assume offhand that private enterprise is all wrong as to assume that it is all perfect, and it would be just as expensive in practice. The forces of service in private enterprise give us something invaluable to tie to while experimenting with other forces, and the same is true of the study of these forces in economic theory.

II. A RECLASSIFICATION OF PRODUCTION

There are three general ways of giving things increased power to satisfy wants. You can adapt the things to satisfy existing wants, you can adapt or direct the wants to be satisfied by existing things, and you can settle disputes between rival claimants whose wants are mutually exclusive and deny the claims of some in order that the claims of others may be satisfied. The first way is the only way covered by the customary treatment of production, yet there are really three co-ordinate fields of social production¹ corresponding to these three ways of giving things value, and one cannot name a finished product in organized society to which all three have not contributed. The first is the production of objective gratifications: "utilities" of form, time, and accessibility. The second is the shaping, informing, and guidance of human impulses which are responsible for their taking the form of definite desires and attaching themselves to definite concrete objects. The third is the maintenance of order to protect the enjoyment of these gratifications from destructive interference. Manufacturing may serve as an example of the first field of production, salesmanship of the second, and jurisprudence of the third.

The logical order would seem to be, first, the rousing of wants; secondly, preparing means of satisfaction; and thirdly, settling disputes over possession of the products. However, the last is neces-

¹ This is, of course, not the one and only correct classification, but it appears to be the significant one for certain purposes of some importance hitherto unattained. Certain writers have regarded the protective work of government as a co-ordinate form of production without analyzing it in detail on this basis. Cf. especially Senior, *Political Economy*, pp. 74-76, 87, 183; and J. B. Clark, *Essentials of Economic Theory*, pp. 10-11.

sary before either of the others can be worth while. Historically—or prehistorically—the settling of disputes was probably the first to command the concentrated attention of the ancestors of the monkey tribes, who presumably fought over the preglacial equivalent of coconuts before they thought of collecting them in some place of storage. And the guidance of demand is the last to command productive efforts on a basis of self-interest, for it waits on the organization of exchange; and indeed exchange must be quite highly organized before producers become aware of this kind of production as a distinct object of effort.

So far as economic theory has dealt with the connection between value and production for exchange on the one hand and desires and gratifications on the other, it has been almost exclusively confined to the field of gratifying *existing* wants. Here its generalizations are largely true, “other things being equal,” and “other things being equal” covers both the other major fields. Some of the generalizations are true, that is, so long as there is no change in the social efficiency embodied in the fundamental laws and customs or in the methods of directing people’s wants; other statements are true on condition that no such change is possible; while some are strictly true only on the assumption that the two outside fields of production are carried out in absolute perfection. A few illustrations may serve to give more definite meaning to this statement and to the idea of mutual restraint and the settling of disputes as co-ordinate branches of production and joint contributors to every product.

It is essential, if one is to get out of an object all the gratification there is in it, to exclude anyone else who may undertake to use it without his consent, and to prevent anyone from invading it with evil sounds, sights, odors, germs, or more tangible nuisances. This means more than the “possession utility” which the retailer is sometimes said to create. The dealer does not create title of ownership in the goods any more than he creates the matter they are made of; he merely transfers the title. Ownership is created by the state, though it is administered by the joint efforts of private persons guarding their own rights and of the state which defines

and enforces them. It is a preventive value¹ produced in large part publicly and for the rest under minute public regulation. Private production of preventive values is quite possible without public aid or control, but it is little more than a clumsy name for a state of brigandage and anarchy. For in this particular matter private interests are in direct and inevitable conflict.

There are two grades of conflicting interests to be arbitrated. I may want the same house my neighbor does to live in, or the same food to eat: the court decides the dispute in his favor and the police dispossesses me, thus producing value for him and by the same token the opposite for me. The net result is to grant my neighbor a more valuable kind of possession than either of us could have established if we had been left to fight it out. The exclusion value which the courts and police have produced is one of the most highly valued of all utilities.

On the other hand I may make myself obnoxious to my neighbor in the course of following my own devices with my own possessions. Such things range all the way from serious dangers, such as the manufacture of dynamite, careless storage of gasoline, or unsanitary conditions, through such things as the introduction of manufacturing in a residence section or the admission of undesirable tenants or the building of unsightly fences, down to mere personal cruelty, such as practicing on the cornet. In every case I am lessening the value of other people's property to them, and if police ordinances and real-estate restrictions prevent me they are productive of something which we may call protective utility value. Exclusion and protection, then, are the chief forms of preventive values.

With direct invasion prohibited and the worst indirect nuisances under the ban, there are still many conflicts of interest remaining unsettled, and under modern conditions this must always be so. The attempt to make protection complete would probably prevent the production of any other kind of value. But the present condition leaves much room for improvement, especially in a system based on free contract, which can at best insure true social productiveness only to the extent that preventive services have already

¹ "Value" is here used to mean human value, implying a "utility" sufficiently scarce or expensive to have economic importance. The values immediately in question have no adequate measure in price, though all values take some effect on prices.

been cared for by some other agency. If the universe were so constituted that all damage could be either forbidden or permitted only with the consent of the parties affected, then the more obvious forms of parasitism would be at once impossible, and the sphere of free contract would properly include almost the whole of economic life.

One form of value which will never be protected against trespass is that which consists of superiority over one's fellows: invidious value. The ever-changing styles furnish a constant cycle of invidious and emulative values, continually being established at each other's expense and continually destroying each other. This mutual destruction is a fact, apart from any judgment of approval or condemnation, that may be based upon it. It does not, probably, represent total loss, since the human mind is so made that it is quite possible for every man to be not only as good as every other man but considerably better. And these are the same men who show by their actions that their natures need someone whose superiority they can acknowledge by the sincerest form of flattery. They cannot be happy without models to imitate.

Thus we may, if we like, classify utilities or values once more according as they are invidious or not, but it would be an optimistic scientist who could expect to establish an absolute test and measure of the extent of invidious utility in a family budget. And he would need to be still more optimistic to hope to determine just what part of the invidious values is a social waste, and how this waste can be scientifically prevented. "Pitiless publicity" such as Professor Veblen delights in is probably the most hopeful prescription.

But to return to the formulated laws of economics and to show how they hinge on certain implications as to the unrecognized fields of production. For example, consider the statement that an increment of labor increases the total product, though by a smaller proportion than the increase of labor bears to the total supply. This would seem to follow, granted the law of diminishing returns, if there were no change in the proportion of our productive power that is lost through misinformation, or predatory actions unprevented, or damages uncompensated. Again, take the general doctrine that competition tends to direct productive power into those

channels in which the demand is greatest. This is true (demand being defined as "effective demand" and measured by its effects in the market) as long as those demands which can only be satisfied through changes in institutions are doomed to be completely ineffective. But demands that are ineffective today may gain a legal status that will make them effective tomorrow. A demand for freedom from infectious disease cannot be satisfied by letting the individuals offer a price for protection. No matter how strong the individual demands are and how much they would be willing to pay, they remain largely ineffective until a public-health service is established. The demand for an assurance of desirable conditions for a residence district may be never so strong, but a Philistine minority or a business enterprise can defeat it without redress unless there is a zoning system or some form of real-estate restriction. Much of social legislation is the making effective of personal demands for protection that were not effective before. If economics is to have anything to say in these matters it must begin before the struggle is all over; it must study demands before they become effective. These demands are like others in that people would be willing to pay a price for their gratification if it could be bought in that way. As things are the gratification commands no price, and the demand for it falls within the blind spot of formal economic theory.

If one says that the static-competitive distribution of productive factors is the best, he may mean either one of two things. He may mean that it is a conditional best: the best possible, so long as it is impossible to eliminate any of the existing maladjustments resulting from the gaps, blind spots, and general shortcomings of the institution of private property as it now exists, and from the imperfect ways in which demand is guided. If it is to be an absolute best the static conditions must include two very far-reaching ones not commonly mentioned: First, a property system that permits no uncompensated damages and in other respects fulfils the static condition of a changelessness based on the fact that, though change is freely possible, there is no adequate motive. Secondly, there is required a perfect system of education and information. But the best system in practice is one in which a balance is struck between the marginal efficiencies of productive power spent in increasing the

supplies of goods, in improving the conditions of demand, in increasing the effectiveness with which established principles of law and equity are enforced, and in devising improvements in the institutions themselves. Each must in the very nature of the case fall short of absolute perfection, and each must fall still farther short of its humanly possible maximum, because much energy must needs be diverted to caring for the others. And the static-competitive standard of distribution cannot tell how much each should absorb, or on what principle the balance should be struck.

Possibly a simpler case of a doctrine which hinges on perfection in the production of order and of demand is the statement that an increment of competitive income to any enterprise involves an increment of social gratification. Clearly this has no reference to income springing from the mere summation-of-stimuli type of advertising, nor to the top story of a tall building which, while it barely succeeds in showing a doubtful margin of gain to the owner, means a clear loss of light and air to surrounding buildings and an increase in the congestion of the streets, causing delay to individuals and expense to the city. These are some of the ways in which theories of the production of gratifications are conditioned by the systems for guiding demand and for establishing and maintaining a restraining order.

The shaping and maintenance of a system of order as a form of production has been recognized by economics,¹ but the field has not been actively occupied. Even the recognition of it is marred by some misconceptions as to its nature (for which the jurists themselves were originally responsible). The prestige of Blackstone still rests upon the law and perpetuates the idea that rights are something with an independent existence somewhere in the universe, which courts have merely to discover with more or less accuracy. Leading thinkers have but lately broken away from this idea, and it may still be regarded as orthodox. The newer conception, not yet supreme among jurists themselves, has certainly not had time as yet to permeate economic doctrines in all those subtle implications whose dependence on the theory of legal rights is not obvious to any but a searching scrutiny. Hence we still lack correct and adequate

¹ Cf. especially Senior, J. B. Clark, in passages noted above (p. 138).

analysis of the true nature of the dependence of objective production on this half-realized system of order (legal, customary, or ethical) within which it does its work. Even Professor Ely's recent and most welcome work on the subject hardly fulfils this last condition, while certain passages in the works of Mill¹ and others leave a sense of promise unfulfilled. The field offers an unrivaled and almost untouched opportunity for analysis of the bearing of its general principles on those of the other types of production and on the central theme of economic study.

Possibly one reason why this field is so little worked may be found in the prestige attaching to the traditional classification of utilities into those of form, time, place, and possession. This classification gives the content to the definition of production, where production is defined as the creation of (exchangeable) utilities. But this classification of utilities has failed to keep pace with the facts of production, and so long as the conception of production is cramped to fit these terms it must needs be inadequate to the work it has to do.

This classification had its origin in an obsolete controversy. The classical writers treated as unproductive many occupations which did not create material commodities. As compared with this attitude the fourfold classification of utilities marks an important step in advance and serves admirably to show that no occupation is to be stigmatized as unproductive merely because it deals in services and does not produce material things.² But it offers no alternative principle on which we may carry the inquiry farther, now that the old heresy is dead, and try to distinguish between different varieties of productiveness and unproductiveness on some more scientific principle.

The old distinction between labor that was productive and other labor that was unproductive though necessary and useful is pale and academic beside the insistent and almost frenzied overhauling

¹ J. S. Mill, *Principles of Political Economy*, Book V, chap. viii, secs. 1 and 3; chap. xi, secs. 8-16. Sidgwick also has suggestive passages.

² This issue of productive v. unproductive occupations clearly determines the analysis of utility in the following cases: Marshall, *Principles of Economics* (1907, 5th ed.), pp. 63-67; Ely, *Outlines of Economics* (1909), p. 121; Seager, *Principles of Economics* (1913), pp. 122-23; Taussig, *Principles of Economics* (1915), chap. ii.

of the economic order that is now going on in search of the sources of waste and the springs of disorder and conflict. Neither the logical correctness of the categories of "form, time, and place," nor their fitness for combating past error, is any guaranty that they are relevant and adequate to the special needs of this present inquiry into the wastes and maladjustments of free private enterprise.

III. THE PRINCIPLE OF ALTERNATIVES

So much for the reclassification of utilities and services. If it results in discrediting price as the final measure of economic performance, economic values, costs, and efficiency become complex things to deal with, and it will be worth while to note here a few fundamental principles. If one is to estimate the value or cost or efficiency of any course of action in terms of its realized effects rather than in terms of anticipations or of its momentary force as a stimulus to action, one must not merely know the course of action one is studying but the alternatives as well. Such judgments are ambiguous unless the alternative is clearly understood, for the cost or value of anything is a difference between what happens if the thing in question is chosen and what would have happened if it had been rejected. The ambiguity of the idea of cost is largely due to neglect of this principle of alternatives. The second principle is one of standardization. Efficiency may be of two kinds, which we may call, for lack of a better name, standardized and unstandardized. Their achievement calls for different sorts of policy, and some of our shortcomings in theory and practice are due to treating one sort of efficiency with the tools that are proper to the other. Let us see what these principles mean.

We have seen, for example, that the principle of marginal utility has not necessarily been shown to produce the best organization of personal consumption, even if it can be shown that everyone organizes his own consumption in the best way he personally can organize it under the existing system for information and under the desire-molding forces of the present social-economic environment.¹ It remains to be seen that we cannot prove that our social

¹ See January issue of this *Journal*, pp. 11-12.

organization of consumption is the best available, even if we could prove that it is the best possible *under a system of inherited inequality in purchasing power*, so long as that inequality may conceivably prove to be in itself fatal to the attainment of the really best distribution. Without some inequality less goods would be produced, and we must strike a balance between maximum production and maximum gratification per unit of goods produced. But it may be that one reason why the best balance has not yet been found is that it has been taken for granted that inequality in reward must carry unequal purchasing power in all departments of consumption. This is by no means necessary, and the advantage possessed by the rich may some day be strictly confined to a limited amount of those pleasures and luxuries of life which can be had without unduly limiting the output of the fundamental necessities. That is about what a war-time system of rationing and priority amounts to if it really limits the output of nonessential industries. Many varieties of policy may conceivably be tried.

In such a case no judgment of efficiency can be regarded as absolute which arbitrarily closes any door of choice which is in fact open to the will of humanity. To the individual many doors are closed which open to the collective power of society, and this is the fundamental reason why "social efficiency" means something radically different from the sum of individual efficiencies. The range of possible attainment is vastly broader; the standard is for that reason vastly more exacting, and the ranking of things as they are, vastly lower, when judged by that standard. In a state without adequate public employment agencies a million citizens might each one reach the maximum efficiency possible to him *under those conditions*, which no one alone is able to change. But it hardly follows that the million are working at the maximum efficiency possible to them collectively if they could collectively establish agencies which would substantially reduce the amount of unemployment.

Thus economics must be on its guard in reasoning from the sum of individual efficiencies to social efficiency that individual efficiencies of this limited and almost irrelevant sort are not added up uncritically into a false social sum. Rather than this the thing which economics needs to contribute to the search for social effi-

ciency is a study of the effect on individual economic efficiency of the various outside influences which society is capable of exerting or modifying.

So much for the first principle of efficiency, which has been characterized as a principle of relativity.

IV. THE PRINCIPLE OF STANDARDIZATION

Wherever we can define attainment that is 100 per cent complete, so that success has the characteristic of accuracy, we have thereby standardized efficiency in that particular pursuit. We can speak of it in terms of a tendency toward the standard or of deviation from the standard. If measurable, it is by a percentage figure less than one hundred. The amount of possible gain is finite; the standard itself is static.

Where this standardization has not been accomplished or cannot be accomplished the idea of efficiency remains essentially dynamic. The possibilities are unknown and indefinite, and progress can be known only as 'exceeding what has gone before. Studies of this type of efficiency must needs lack absoluteness and finality. They are relative, not absolute, and are limited in scope to the range of alternatives that are suggested for consideration.

In general, any work of conveying information is one in which efficiency is standardized so far as accuracy is the end in view. If newspaper writing is less standardized, calls for more of initiative, and depends more on the "personal equation" than the composition of an engineer's report, that fact may be taken as evidence of its place in the realm of creative art rather than of mere information. In the work of judging the quality of goods the determination of chemical composition and other objective facts are standardizable, while matters of taste are not. A pure-fabrics law may accomplish much, but it cannot measure the superiority of a Poiret gown. Science is continually increasing the amount of standardization, and "scientific management" is an attempt to introduce it in place of the more elusive craftsmanship and rule of thumb. The known capacity of a machine sets a standard for the efficiency of the operative. The task of equaling one's competitor's performance or one's own past performances has a set goal, and the search for

industrial efficiency is standardizable so far as it can be reduced to these terms. All work whose purpose is the prevention of accident or physical damage is standardized in that its end can be definitely stated, though the methods may offer such scope for innovation as to give the task a mixed character. The protection of recognized property rights by the police is almost wholly standardized, but the delimitation of property rights in doubtful cases by the higher courts is one of the most fundamentally unstandardized forms of economic production, second only, if at all, to the revolutionary changes of technique which have made them necessary. For our changed ways of doing things have brought about new conflicts of old interests as well as other interests newly created or newly revealed, and thus have forced the courts to trench upon old rights and recognize new ones.

In general, economics must be on its guard against applying to one type of efficiency the conceptions that belong to another. The doctrine of natural rights and its surviving aftermath, the idea of property rights as a pre-existent something which courts discover and protect, but whose nature they do not mold—these are the conceptions of standardized efficiency applied in an unstandardized field. In this field 100 per cent efficiency is a contradiction in terms, since one man's restraint is necessary to another's freedom. But since private property is the residuum of freedom left over and above the restraints, a restraint imposed is in its essential effect a taking of property.¹ These restraining rules of government are aimed to prevent individuals from unduly restraining each other, but as for determining the exact dividing line between a rule that protects more important use values than it destroys, and one that destroys more important values than it protects, who shall define this line or standardize or predict it for the future?

The idea of efficiency embodied in "marginal utility" is also one of the standardized sort to be achieved or approximated by the individual consumer. But the work to which this idea is applied is largely unstandardized work, and the most definitely standardizable part of it (the work of finding out what one is really buying) is often

¹ Not technically, of course, if the property right was already qualified by the power of the state to impose this restraint whenever it chose to do so.

beyond the consumer's power and possible only to a well-equipped laboratory, and is becoming more and more a specialized department of public production. It is, then, not because the consumer gets a well-standardized result that consumers' freedom is to be defended, but because a large part of his work is essentially unstandardized. For where no standard exists personal liberty is paramount, but where standards do exist the most efficient agency will generally be called on to do the work. In general, rival means to a common end may be measured by their effectiveness in promoting that end, but for the ultimate ends of life there is no established common measure. Consumption as an end in itself is unstandardized; as a means to recognized personal and social ends it is in some sense standardizable.

War, for example, changes all things in this respect, for at one and the same time it forces nations to recognize that society's interest in the individual is paramount to the individual's interest in himself, and it strips this social interest bare of all the unstandardized superfluities, down to the sheer necessities of life and health. The result is national control of consumption on a huge scale.¹ This may conceivably take permanent effect after the present world-conflict, and as a result states may refuse to be as lax as formerly in allowing those standardized health-values of which the consumer is not the best protector to be sacrificed to ignorance, quackery, and vice in the name either of freedom itself or of the harmless social stimuli of alcohol or the fantastic and dearly bought artistic inspirations or other values which may be found in various kinds of vice.

Again, at the time when political economy was forming its traditions, efficiency in business management was hardly standardized at all. Since that time science and machinery have been busy introducing standards and standardizable operations and problems to an extent which makes it pertinent to inquire if there has not resulted a change in the requirements of industrial progress. In a general way the existence of standards of efficiency, especially if there is no danger of their being quickly attained, has the effect of lessening the need for individualism as a means of attaining efficiency. There is less need of relying on the spur of private profit in carrying the

¹ It is not intended to imply that this is the only reason for bread tickets.

mails than in making automobiles, and less need of letting laborers suit themselves as to the technique of their work after time-studies have found a better way than any of them had learned from their fellows or worked out for themselves. Incidentally it may be worth reminding ourselves from time to time that social efficiency in a democracy is unstandardized and calls for just those qualities in all the people of which standardized industrial work has less and less need in the ranks of labor. Needing them less, it has less and less tendency to develop them and offers more and more chance for them to atrophy. This issue transcends economics, but any remedies that may be suggested will have economic costs, whether they involve regulation of private industry or attempt to utilize the hours of leisure.

In summary, an attempt has been made to show what is meant by the mutual relativity of doctrines in the three great productive fields of supplying objects of desire, of molding desires and guiding choices, and of the creation and maintenance of order and mutual restraint. We have discounted in advance any claim of conclusiveness for deductive theories or for judgments of efficiency as commonly drawn from them, and we have noted two kinds of efficiency, standardized and unstandardized, and have seen that the distinction is important enough to justify further study. In trying to indicate what this study may include, and how important a field it will cover, the writer has found it almost necessary to compress the presentation into outline form. Only in this way can an adequate idea be given of the scope and content of this department of economics. At the same time the attempt is made to show how certain common principles are carried through the study, and to indicate at certain points the conclusions toward which the results of the foregoing study strongly point. In general, the study reveals many shortcomings in economic guidance under private initiative, and points toward the need of co-operative or public agencies to make good these defects. Where guidance is left too much to private business enterprises, large-scale production has an unnecessary advantage due to the fact that guidance is in a sense a "natural monopoly." On the other hand, co-operative guidance may bring producers so close together as to make far-reaching changes in the character of business competition.

V. OUTLINE OF STUDY OF GUIDANCE OF "FREE" ECONOMIC CHOICES

A. GENERAL PROCESSES

I. Self-guidance

1. Deliberative action in deciding whether or not to act on a stimulus presented from outside
 - a) Where no common measure exists, deliberation depends on
 - (1) Power to call to mind alternative courses of action as "centrally excited stimuli." This depends on
 - (a) The individual's habit of deliberation, which is affected by education and industrial environment
 - (b) These "centrally excited stimuli" must at some time have been presented from outside. Need of a system that furnishes these stimuli in quantity and form suited to men's capacity to make use of them
 - (2) Power to judge the extent to which these courses of action are mutually exclusive (intelligence and information)
 - (3) Power to give centrally excited stimuli approximately the weight they would have if presented externally (the essential condition necessary to "marginal utility"). This is "will-power," and is affected by education and environment, including the success achieved in past attempts to exercise it. Need of presenting men with problems suited to their powers. Failure tends to deaden endeavor and to fatalistic attitude. Need of economic-psychologic studies in this field
 - b) Where common measure exists, deliberation takes the form of calculation and depends on
 - (1) Information
 - (2) Ability to calculate
 - (3) Time, effort, and expense involved (compare different situations in these respects)
 - (4) Availability of resources to make calculations on a large scale, with division of labor
2. Habit, custom, imitation
 - a) Result of past deliberative choices
 - (1) Where conditions remain the same
 - (2) Where conditions change
 - b) Results of other kinds of choices
 - c) Bias toward one type of reaction likely to be applied to situations calling for a different type
3. Ideo-motor action and suggestibility. Results depend on outside agencies (see detailed analysis below)

4. Variant human types

- a) Differences in foresight, responsibility, loyalty (quality and group to which it attaches), intelligence. Include pathological types. Innate differences v. differences due to environment
- b) Stimulation of qualities by different industrial rôles
- c) Selection of existing types by different industrial rôles
- d) Type problem: can an increase in the number of higher human types lead to a corresponding increase in the supply of positions offering superior rewards to these types, or is the proportion of such positions largely predetermined by our technical-capitalistic methods of production?

- 5. Many social interests not represented in individual calculations. Unpaid costs and inappropriable services. E.g., employer with little fixed capital may feel little financial interest in regularizing employment: gain would accrue chiefly to labor in the first instance and not be discounted in this employer's rate of wages. See B IV, d), e), f), below

II. Guidance by commercial agencies; circumstances favorable and unfavorable to efficiency, chiefly

- 1. The imperfectly appropriable character of the product
- 2. The fact that it needs to be free to all in order to achieve maximum efficiency, a condition that would destroy private incentive to carry on the work
- 3. Mutually destructive character of competitive guidance (See detailed study below)
- 4. Where work is standardized, public enterprise is favored by that fact

III. Guidance by co-operative and public agencies. Needed to supply deficiencies in commercial incentive noted above, particularly where the work is standardizable

IV. Conscious informal guidance, codes of conduct. Effect varies with inclusiveness of the group. One trade or one class v. all trades and classes

V. Unconscious guidance

- 1. Codes
- 2. Unpremeditated and unrealized effects of industrial environment on men's habits of self-reliance, loyalty, or suspicion, etc.

B. DETAILED ANALYSIS

I. Guidance of entrepreneur's choices

1. By the entrepreneur himself

a) General considerations

- (1) Effect of entrepreneur's guidance best seen by comparison of personal entrepreneur, corporate entrepreneur, public manager, co-operative manager and independent civic associations, throughout following treatment

- (2) How affected by range of alternatives open to him: alternatives set base line from which effective costs are calculated (i.e., those costs which govern present decisions)
 - (a) In general, alternatives open to entrepreneur represent a surplus over minimum needs, in contrast to those open to labor, which may represent a shortage
 - (b) After committing one's self to an enterprise, range of alternatives less favorable. May involve bankruptcy. Lessening of prospective losses is equivalent to a business gain if losses are already irrevocably incurred
 - (c) Most efficient policy for business as a whole may not be open to single entrepreneur, e.g., best location for any one produce jobbing house is near the others, even if they are not in the best place for the trade as a whole. Intelligent individual decisions will not prevent perpetuation of location that has become uneconomical. Community could avoid a cost which the individual cannot
 - (d) Individual may avoid costs which the community still has to bear (e.g., discharging a misfit workman v. finding a place where he will fit. Society must do the latter in any case, or suffer the greater loss of the workman's degeneration—a loss not confined to the workman himself. For workman's range of choice and responsibility in this matter, see IV, 1, below). System of competitive bidding to acquire efficient productive factors and discard inefficient ones not necessarily best way to develop efficiency or cure inefficiency
- (3) Motives: entrepreneur not below the average in sympathy, group loyalty, morality. Above the average in emotional enthusiasm for work as such and readiness to assume positions of responsibility
- (4) Justification for regarding him as primarily governed by calculating self-interest chiefly due to situation
 - (a) Money furnishes common measure for calculation in most matters
 - (b) Entire net income may hinge on narrow margin between gross income and expenses
 - (c) Resources available (in proportion to size of business) for bearing the costs of calculation
 - (d) Compelling force of competition
 - (e) Wide range of stimuli to varying courses of action (varies with large-scale v. small-scale business, city v. country, etc.)

- (f) Extreme caution, which leans toward custom and habit, put at a discount by limited liability and easy bankruptcy laws
 - (g) The foregoing circumstances tend where strongest to develop a habit or bias of innovation, even where considerable chances are taken (contrast different industries and public employments). This bias possibly overstimulated in view of risks not borne by entrepreneur but imposed on others by his innovations
 - (h) Compare, in this respect, large-scale manufactures, small-scale manufactures, scientific agriculture, agriculture on poor lands in backward sections, etc. The poor soils are left to the least progressive farmers. Such regions may come to furnish the best opening for "new blood" to make money, because of the very backwardness of prevailing methods
- b) Standardizable work: calculation of prices, qualities, performances, costs, etc.
- (1) Entrepreneur has greater interest in accuracy than consumers and others, because his entire income may hinge on a narrow margin between expense and income of business, especially if competition is active
 - (2) He has resources, if his business is a large one, to make expensive studies
 - (3) Disadvantage of small producer may be made good by co-operative action. If not, small-scale production gets no chance to show how efficient it can be, e.g., farmers and bookkeeping
 - (4) Limitations of cost-accounting: expense, impossibility of adapting one formula for apportionment of overhead items to varied requirements of shop policy, marketing policy, large v. small increments of business, short-time v. long-time increments, labor policy, etc. Need of business statistics, rather than mere accounting formulae for apportioning general items of expense. Such work most economically done by an agency covering many plants and many industries. Peculiarly inadequate is knowledge of costs and values of employment departments, labor turnover, and labor policies in general. Cf. proposal of federal government to standardize labor policies during the war
- c) Finding the "best proportion of factors" (subject to limitations mentioned above)
- (1) Process largely one of imitation and custom modified by trial and error, with competition weeding out the worst mistakes

- (2) Imitation and custom strongest in small-scale industries, competition weakest with small local producers and very large-scale industries
- (3) No hard-and-fast line between quantitative changes in proportion of factors and qualitative changes in methods, since unfamiliar proportions demand unfamiliar forms of capital and uses of labor
- d) Innovations (see (1) and (2) above)
 - (1) Technical innovations
 - (a) Results largely determinable by experiment
 - (b) A "business of increasing returns," since a given technical discovery involves a constant outlay no matter how much product is turned out by its aid. A harmonious increase of all the other productive factors used *with this fixed factor* is not subject to "diminishing returns"
 - (c) Hence, if the process is used by all, correct imputation will cause the marginal shares of the other factors to absorb the entire product¹
 - (d) If the process cannot be used by all, its productive efficiency is limited
 - (e) If it is used by all subject to royalties, these payments are a subtraction from the marginal products of the other factors when working with the new process, hence they limit its use to a point short of maximum efficiency
 - (f) If the process must be granted freely to all, the originator has no reward and other possible originators no incentive
 - (g) Since this form of productive wealth is necessarily unique, property and monopoly are inseparable in this case, and sum of differential products attributable to all the factors, including past contributions to knowledge, vastly greater than entire product. Hence, if each prospective innovator expects to appropriate a large share of the differential worth of his invention, this incentive, together with "instinct of workmanship" on the part of the inventor proper (as distinct from the entrepreneur-promotor of inventions), makes it possible that more may be spent on inventions than the results are worth
 - (h) Commercial failures contribute to the knowledge on which ultimate commercial successes are built. No test of value of contribution

¹ Space does not permit proof of this proposition. One example of it is the tendency of unlimited competition to bring price to the level of the sum of the variable costs and leave nothing for constant outlays.

- (i) Patent system: Term of patent not proportional to life of commercial value of invention. High cost of protection against infringement may lead to unduly small reward. Ownership of many patents may deprive public of advantage of power to substitute second-best processes and so lead to unduly large reward. Collective research on salary basis as substitute. Difficulty of determining value of contribution (see above)
- (j) The foregoing facts furnish a strong case for public or co-operative research. If not combined with public operation of industry, the unprogressiveness of public ownership would be avoided
- (2) Innovations in commercial and business organization. Same principles as (1) above, without patent system
 - (a) Private possession of resulting gains partly secured through business reticence, and time and effort necessary to adapt one man's methods to another man's business. Secrecy seems on the decrease (commercial associations promote frankness and realization of joint interest)
 - (b) Experimenting more costly since not confined to laboratory or testing department. Hence collective research a peculiarly valuable method in this field
- (3) General principles
 - (a) So long as innovation is on an individualistic basis, increasing returns in this field favor large-scale production more than would result from the economies in routine management of the other factors of production alone
 - (b) Balance of social gain and loss includes cost of revising institutions made obsolete by technical revolutions: of delegating experts to care for terms of increasingly complex labor contracts; of being forced to trust these experts; of making consumers' judgment of commodities more difficult and reducing the value of habits and customs of consumption, or cost of expert services to make good this loss; of unforeseeable damages to physical and mental health resulting from unfamiliar working environment. In general, the work of adaptive specialists needed to protect us from the results of the innovative specialists' work
 - (c) Possible further deductions for amount of increased productive power devoted to invidious or other mutually defeating pursuits, and further amount not permanently

embodied in standard of living and hence taking effect only in increasing population. Estimate of the latter depends on national-militaristic v. cosmopolitan-pacifist points of view

- e) Judgment of efficiency of subordinates
 - (1) Value and limitations of formal tests
 - (2) Methods of informal judgment
- f) The corporation as an economic man. If corporation is to act with calculating selfishness *as a corporation* directors and officers must act with perfect loyalty in the rôles assigned by their positions. In proportion as corporations dominate business, economics becomes the science, not of self-interest within the law, but of loyalty beyond what the penalties of law can enforce
 - (1) Development of codes of intra-corporate honesty
 - (2) Competition as a force in this direction weeding out the badly managed enterprises
 - (3) Types of business affording opportunities for profits through disloyalty
- 2. By other agencies under commercial incentives
 - a) Internal (see cost-accounting and innovation above): Routine records v. creative work. Information of value only to one entrepreneur v. information of value to trade as a whole—e.g., routine accounting. Though a form of guidance, its primary value is inalienably private, and private enterprise secures this service with reasonable adequacy. Contrast the devising of the best accounting system for small-scale industry; essentially a joint or public interest
 - b) Specialists in news services, business barometrics, technical and commercial periodicals. Value limited by reticence of business men from whom information must be obtained
 - c) Advertising and selling services: Since the entrepreneur is able to take care of his own interests as purchaser, sellers are compelled to rely chiefly on verifiable information, hence less wasteful than selling to consumers. This less true of selling to small-scale producers
 - d) Other ways of attracting customers
 - (1) Railroads' industrial departments
 - (2) Inducements offered by local bodies to attract industries to their town
- 3. Informal co-operation of entrepreneurs
 - a) Contact in trade and technical associations
 - b) Codes of fair dealing
- 4. Formal co-operation of entrepreneurs
 - a) Exchanges with rules of trading, etc.

- b*) Grading of goods (also done under public control)
 - c*) Information services of co-operative associations, agricultural especially
 - d*) Co-operative buying, chiefly agricultural
- 5. Outside non-commercial agencies chiefly acting from civic motives
 - a*) Economic and industrial research
 - b*) Mediation in labor disputes
 - c*) Educative effect of political propaganda in attracting attention to unprotected social interests
 - d*) Education in general: its best service in this matter is to develop in business men and others a lively sense of the remote effects of business policies, and a bias toward treating these effects as they would if the people affected were acquaintances and the effects were visible and immediate
 - e*) Public agencies
 - (1) Fundamental legal institutions (forms of restraint rather than guidance of free choices)
 - (2) Services of value to employers as a group and not adequately cared for by limited resources of single employers
 - (*a*) Experimental and publicity work in agriculture
 - (*b*) Testing done by Bureau of Standards
 - (*c*) Consular service and possible enlargements of such functions
 - (*d*) Improving conditions in which buyer and seller meet, e.g., public wholesale markets (see 1, *a*), (2), (*c*) above)
 - (3) Research in means of furthering interests which single employers do not have adequate financial incentive to protect (see sections on laborer and consumer as economic men)
 - (*a*) Safety studies, e.g., Bureau of Mines
 - (*b*) Unemployment studies
 - (*c*) Studies in effects of adulterations
 - (4) Work combining features of (2) and (3). Standardization of methods of dealing with labor, studies of causes and costs of labor turnover, etc.
 - (5) Control of conditions of bargaining, of location of industries (e.g., city zoning and city planning), etc. Forms of restraint rather than guidance of free choices but made necessary by blind spots in entrepreneur guidance. See A, I, 5, above
- II. The professional classes (whose work is itself largely guidance)
 - 1. Self-guidance
 - a*) Calculating self-interest highly influenced by professional and social standards
 - b*) Technical ability in a sense an "overhead cost." Study to what extent discriminations are on commercial principle of charging

what the traffic will bear and to what extent work is done at a positive sacrifice

2. Intercommunication: highly developed (study of reasons for this; compare relative reticence of doctors toward patients, of business men toward all others)
3. Codes
 - a) Limit the bargaining interest; no strikes
 - b) Public-service obligation stronger in some professions than in others
 - c) Study of extent to which codes embody
 - (1) Professional class interest
 - (2) Reflection of standards of other classes with whom associated
 - (3) Public interest at large

III. Investors

1. Self-guidance
 - a) Twofold character of work: calculation of financial income and of desirability of methods by which income is gained
 - b) Difficulty of calculating financial prospects on part of small investors
 - (1) Imperfect information in published reports
 - (2) This itself caused partly by small investor's incapacity to analyze such reports and resulting failure to demand effectively that such reports be adequate; partly by opportunities for "inside profit" through concealment; partly by desire of entrepreneurs to conceal commercial facts from competitors (such concealment a doubtful gain to business as a whole)
 - c) Result: stimulates tendency to divide investments for purposes of safety. This already stimulated by limited liability
 - d) Result of this
 - (1) Still further reduces power to judge safety of single investments and effective demand for adequate information
 - (2) Hence tends to reduce general safety. Single investor escapes, community does not
 - (3) Reduces to vanishing-point the knowledge of the human characteristics of the business on which depends the check investors would otherwise exercise on undesirable methods of production, leaving managers under pressure for earnings without adequate regard to methods
 - e) Field for investment of what is virtually "social capital" in developing personal knowledge and skill; limited by fact that the results are inappropriable unless one is investing in himself. Study of extent to which employers have interest in training employees

2. Inadequacies of present system furnish large field for co-operative action by investors, and public action for better information. Associated action might develop codes of investors' responsibility among a group at present too unorganized to develop strong codes
3. Effects of occupation and other economic circumstances on thrift

IV. Laborers

1. Self-guidance

- a) Twofold character of choice as in case of investor
- b) Incentive to close financial calculation
 - (1) Weaker than entrepreneur's, since a failure to get the best bargain does not shrink wages to zero (as it may shrink net earnings in business)
 - (2) Stronger than consumer's, since one contract governs his entire income
- c) Many labor contracts too complex for laborer to grasp
Note difficulties of language, also cumulative effects of getting the worst of the bargain at the start
- d) Knowledge of advantages of different trades too expensive if obtained at the cost of drifting from one to the other
 - (1) Sacrifices chance to develop specialized skill
 - (2) Danger of degenerating into a chronic "casual"
 - (3) Hence alternative to acceptance of a bargain may be a condition of virtual human deficit. This the base-line from which "effective disutility of labor" in a given plant may be measured
- e) Working conditions are a complex "bundle of utilities." Such things get adequately valued in a free market only if purchaser (workman in this case) has option of all conceivable combinations. In view of limitations on his range of choice shown in d) above, it follows that free contract is not an adequate method of registering the worker's real demand for good working conditions
- f) Effects of working conditions not traceable save by specialized research. Especially true if conditions are rapidly changing. Fatigue not adequately measured by worker's sensations at the time it is incurred
- g) Bias of class hostility; causes and effects. Include costs of racial and linguistic cleavages. Causes of hostile feeling may be different from the objects it selects to attack or to strive for. Need of economic-psychological study on this point
- h) Ambition and foresight governed by opportunity which the industrial system affords to use these qualities successfully. Family solidarity a strong favoring influence, and employments

that weaken it weaken foresight, ambition, and thrift. Pathology of casual labor

2. Unions as forms of labor guidance
 - a) Specialists in bargaining employed
 - b) Difficulties of integrity (cf. corporations)
 - c) Subject to the bias and possible pathological state of their members
 - d) Do not secure far-reaching scientific research
3. Commercial agencies
 - a) Employment bureaus
 - (1) Inability of laborer to judge quality of what he is getting leaves room for abuses
 - (2) Waste of unco-ordinated service
 - (3) Disinterestedness and reliability, not energy and originality, the paramount qualities needed—hence suited to public management
 - b) The employer: weakness of incentive; service to labor not appropriable by employer rendering it, but employer has at least temporary possession of the results and is improving this branch of service (employment departments; reduction of labor turnover, etc.)
4. Other agencies needed for intensive study of economic, social, psychological, and legal problems

V. The consumer

1. Self-guidance
 - a) Grades of consumers' interests
 - (1) Interest in one commodity as compared to another
 - (a) Unstandardized
 - (b) Choice commonly made outside the market environment
 - (c) Commonly fortified by habit and less subject to sway of salesmanship than choice of rival brands
 - (2) Interest in one brand as compared to another
 - (a) Frequently reducible to standardized terms: price and objective tests of quality
 - (b) Less fortified by habit and more subject to sway of salesmanship than choice between different commodities
 - (3) Choice between buying a service and performing it one's self
 - (a) Unstandardized
 - (b) The chief case in which consumer has sufficient control over working time and output to bring "marginal disutility of labor" into play as an active factor in choosing whether to make a given purchase or not

- (c) Such work is a change from one's main vocation, and more healthy than attempts to speed up in one's "gainful employment." This tends to balance low efficiency of unspecialized work
 - (d) Collective guidance may increase efficiency of such avocational work
- b) Standardized work; comparison of prices and of quality so far as that can be tested by objective standards
 - (1) Incentive relatively weak
 - (a) Not much money generally involved in any one purchase. Some have distaste for price-searching and avoid it as far as possible in ordinary purchases, though not in contracts where getting a living is at stake
 - (b) Exceptions: housewife's pride in buying as a profession. Not universal. Success limited by lack of all division of labor.¹ Sportsman's or connoisseur's judgment of qualities. Limited in scope and itself an expensive pursuit
 - (2) Means available
 - (a) Investigation previous to purchase. More effective as to prices than qualities, and chiefly for large purchases of goods not often renewed. For other purchases preliminary investigation is limited by trouble of carrying it out. This affected by location of shops and affects it in turn (see below)
 - (b) Trial and error through repeated purchases; only obvious errors eliminated. Especially if new article may call for slightly new method of using (e.g., cooking food), consumer has no assurance of being adequately forewarned or instructed. Habit tends to continued use of anything not actively unsatisfactory (use of branded package foods giving less food value than other forms, but more assurance of getting the same thing one has had before)
 - (c) Habit (necessary reliance of single consumers): fails to keep pace with changes in production and commercial conditions. Is fortified by distrust of commercial channels of information as not being disinterested
 - (3) Particular quality-values. Health-value of food; accuracy of information; durability of a house, etc.
- c) Unstandardized work; choosing between services of different kinds. More dominant in consumer's work than in any other field of guidance

¹ Mitchell, "The Backward Art of Spending Money," *Amer. Ec. Rev.*, II, 269-81.

- (1) Range of choice limited by standardization of production under influence of economy of large output. Effects of this?
 - (2) Range of possible standardization of consumers' wants increasing with
 - (a) Growth of scientific knowledge (e.g., food-values, health-values, industrial effects of alcoholism)
 - (b) Increasing dominance of social purposes resulting in regarding personal consumption as a means to definite social ends rather than solely as an individualistic end in itself; cf. democratic-individualist and autocratic-militarist economies (see discussion in text, p. 149, above)
 - (3) Fundamental method: trial and error acting around a core of habit and custom and often changing the personality itself, including the unforeseen crowding out of present interests and pursuits
 - (4) Limitations
 - (a) See A, I, 2, and B, V, 1, b), (2), (b) and (c) above
 - (b) Leaves room for control by suggestion in determining what things shall be tried first
 - (c) Nature of alternative courses not definitely known, hence bias toward frugality or extravagance not necessarily corrected and may itself be affected by outside stimuli
 - (5) Buying registers not average judgment, but may record moment of maximum susceptibility
 - (6) Effect on others' interests
 - (a) Dependent relatives, friends, government, have interest in individual's health
 - (b) Invidious values
 - (c) Conformity-values
 - (d) Destructive consumption of common property and (so-called) "free goods," e.g., solitude-value of the wilderness
 - (e) Contagion of example. Fortified by active propaganda. Extreme case the morbid desire of a vice victim to make others converts to his vice
2. Commercial agencies
- a) Location of stores as a form of guidance of consumers
 - (1) Businesses that concentrate v. those that scatter (see B, I, 1, a)
2, (c) above). Where each purchase is important enough to consumer to make him investigate brands and prices, dealers tend to concentrate; where the opposite is true they tend to scatter in search of quasi-monopolies of location

- (2) Consumers' interest in access to all the various competitive brands. E.g., factor's agreement viewed in this aspect is undesirable chiefly in the trades where dealers scatter so that consumer needs to find all brands in one shop
- (3) Attention-value v. "place utility" in store sites, e.g., taking store sites for public uses may result in transfer rather than destruction of a large part of their attention-value, and may even increase the total
- b) Advertising and salesmanship
 - (1) Service of information
 - (a) Identification of goods, value limited by uncertainty whether quality is maintained or not
 - (b) An unnecessarily expensive method of getting this work done
 - (c) Information has an important incidental attention-value in directing customers' attention and inhibiting inconvenient inquiries
 - (d) For this very reason its value as *information* is discounted by customers
 - (2) Stimulus or attention-value
 - (a) A necessary and valuable economic service as a whole
 - (b) Effects to some extent mutually inhibitory
 - (c) Competitive gain in increasing it beyond the point of maximum social gain? Measured by
 - i) Gain to the trade as a whole
 - ii) Gain to all trades (maximum industrial activity)
 - iii) Maximum effective stimulation of consumers' desires
 - iv) Stimulation suited to consumer's power to organize his wants harmoniously
 - v) Harmonious stimulation of commercial (or expensive) and non-commercial (or inexpensive) desires. Quantitative consumption v. qualitative living
 - (d) Statistical study of costs of this form of guidance
 - (e) Consumers' susceptibility varies with margin above absolute necessities; possible decrease in salesmanship outlays as result of war, and increased focusing of competition on price
 - (f) Example: manufacturers' fixing of resale prices as subsidy to services of salesmanship
 - (g) Example: trading stamps. Gain largely due to consumers' inability to estimate worth of competitive inducements in the less conspicuous form of concessions in price or quality. Unnecessarily complicates the con-

sumer's decision. Is the Supreme Court right in saying it appeals to less rational faculties than does advertising, or will the proof that advertising is largely suggestion rather than information lead to upholding possible further limitations in this general field?

- c) Determination of styles
 - (1) Are producers responsible for frequency of changes? (See 5.)
 - (2) If not, their control of channels in which change is to run makes chiefly for regularizing of production by determining demand in advance
 - d) Printed matter as aid to consumer
 - e) Professional sellers of guidance: doctors, etc.
 - f) Industrialized housekeeping (hotels, apartment-houses, etc.) as substitutes for personal household management. Effect on consumers' desires
3. Co-operative agencies
- a) Co-operative retailing as eliminating many expensive features of competitive guidance
 - b) Informal co-operative buying
 - c) Co-operative housekeeping
4. Public agencies: functions viewed in light of foregoing study of other agencies
- a) Pure-commodities laws
 - (1) Information
 - (2) Prohibition of harmful goods
 - b) Standardization of consumption, especially in time of war when economy and changes of habits of consumption become necessary, and if unguided might endanger health. More standardization possible in temporary emergency than would be endured as permanent policy, since the standardized health-values become temporarily paramount, and are in unusual danger
 - c) Education
 - d) Playgrounds, public recreation centers, social settlements, churches, etc., as agencies in formation of desires and offsets to guidance by pure commercial principles embodying social ideals
5. Social standards
- a) Of prestige; display. Why do styles change so fast?
 - b) Of moderation, good taste, and reasonable economy
 - c) Of generosity and public spirit and other standards

C. BASIS FOR JUDGMENT OF EXISTING SYSTEM

Existing aims and ideals for the most part not attainable save by general social action, hence not sure to be adequately secured under "individualism." This applies even to "freedom" in a broad sense.

- I. Maximum gratification of existing wants. Meaningless as standard to judge system of guidance of wants
- II. Maximum fulfilment of innate tendencies of man. Needs fuller knowledge of what these are and effects of industrialism on them.¹
- III. Individual freedom as an end in itself
- IV. Individual health. If mental health included, it is not an individual matter, but one of social relationships. Society has stronger effective interest in health than individuals have. Its protection involves limitations on freedom
- V. Growth in individual self-reliance. Conditions are
 1. Chance to make mistakes in a wide range of important decisions, but not necessarily in all matters
 2. Exposure to unpleasant results of mistakes with protection against demoralizing results so far as possible (not entirely possible nor entirely impossible; cf. modern prison policy in attempt to make prison unpleasant but not demoralizing)
- VI. Development of desirable types of citizenship
- VII. In wholly standardized work, the most efficient system as judged by objective standards

VI. CONCLUSION

The task of self-guidance which modern industry imposes is largely beyond the powers of the unaided individual, and the social need of large-scale co-operative guidance is largely beyond the reach of individualistic commercial incentives. Even so, the value of individual initiative in this field is so great that a change in any case may well be called on to bear its own burden of proof, a process in which the principles contained in the foregoing outline will play a decisive part. This outline is suggestive rather than complete. No attempt has been made to give full references to existing studies of the topics presented. The chief aim is to present an orienting method of approach and a framework of study. Needless to say, the carrying out of such studies is not to be accomplished by the methods of old-time "general theory." The burden of freedom from static assumptions and inquiries is not a light one.

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¹ Cf. paper by Carleton H. Parker, read at American Economic Association meeting at Philadelphia, December 28, 1917.